



December 2004

Workers' Compensation Fraud Report

For the Quarter Ending September 30, 2004 (first quarter 2005)

In Spring 2004, the Legislature passed a supplemental budget that authorized the Department of Labor and Industries (L&I) to spend an additional \$798,000 to expand its efforts to combat fraud and abuse in the State Fund workers' compensation system. With the authorization came a requirement that the agency file quarterly reports to the Office of Financial Management and the Legislature, explaining how the money was spent and the return on that investment. This is the first of those reports, covering July, August and September of Fiscal Year 2005. The other three reports will be published in April, July and October.

On July 1, the department consolidated its anti-fraud efforts in the Fraud Prevention and Compliance Program. A manager and staff were hired, including additional auditors and investigators. In the first quarter 220 FTEs (nearly 8 percent of the agency's employees) worked on fraud prevention and compliance. In addition, claims adjudicators now work more closely with employers and investigators to identify and take action on fraudulent and invalid claims.

In the first quarter of FY 2005, the Fraud Prevention and Compliance Program spent \$3,182,795 on salaries, benefits and other expenses. During that period, \$24,424,582 in delinquent premiums and improper payments to providers and workers was recovered. That figure includes \$234,724 in cost avoidance. That equates to a 7.7 to 1 return on investment. (For more detail, please see the return on investment schedule at the end of this report)

How the additional revenues were spent:

- Two new units were created to fill gaps in the industrial insurance compliance program.
 - The Detection and Tracking Unit is responsible for identifying workers, medical and vocational providers and employers who are in non-compliance, and for tracking future compliance.
 - The Significant Cases Unit was created to manage egregious non-compliance and fraud cases. The unit prepares cases and makes referrals to local prosecutors.
- Six new FTEs were added.

Fraud cases prosecuted/charged/convicted: (FY 2005)

Number of cases referred to prosecution:2

Number of cases charged:5

Convictions: 1 (in federal court)

Outreach/Education:

The Fraud and Compliance Section is now providing training to construction contractors on independent contractors and on prime contractor liability, areas that contractors frequently find difficult to understand. Additional training days are scheduled. In addition, a letter clarifying prime contractor liability and information on verifying premium status of contractors by use of L&I's website was sent to 52,000 registered general contractors and specialty contractors. The field staff also continued to provide local workshops and question and answer sessions with customers.

Premium Status Verification Web Site:

The department has modified its "Premium Status Verification" web site PremiumStatus.LNI.wa.gov to comply with the provisions of ESHB 3188, which required the agency to provide easy Internet access for verifying the industrial insurance status of firms. The site was modified to provide a means of tracking subcontractors and sending an L&I notice to firms when one of their subcontractor's industrial insurance accounts has slipped into noncompliance.

Organizational Changes:

On July 1, 2004 the department reorganized and consolidated its fraud and abuse efforts in the Fraud Prevention and Compliance Program. The new program was structured in a way that eliminates past weaknesses in combating fraud and abuse. Among the changes:

- The department's anti-fraud activities, including employer and provider audits, collections, firm appeals and worker investigations were consolidated.
- Additional investigators and auditors were hired.
- A significant case manager was hired to deal with the most serious cases of fraud and non-compliance.
- Began developing rules to implement ESHB 3188. Beginning later this year, those rules will be used to more effectively prosecute fraud and collect delinquent premiums.

Return on Investment Schedule

Operating Costs	Assessments	Cost avoidance	Recovery/collections	Return on Inv.
\$3,182,795	\$3,003,614	\$234,724	\$24,189,858	7.7 to 1

Assessments: Billings for overpayments, improper billings and for underreported premium payments.

Cost Avoidance: Estimated one-year future outlay for improper or illegal provider billings or worker benefits stopped as a result of investigations.

Recovery/collections: Money recovered as a result of L&I's collection activity.

Return on investment: A comparison of the operating costs to the dollars recovered/collected/avoided during the fiscal year.